

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**November 24, 1999**

<b>IN RE:</b>	)	
	)	
<b>GASCO DISTRIBUTION SYSTEMS ACTUAL</b>	)	<b>DOCKET NO. 99-00647</b>
<b>COST ADJUSTMENT (ACA) AUDIT</b>	)	
	)	

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**ORDER ADOPTING ACA AUDIT REPORT OF AUTHORITY'S STAFF**

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This matter came before the Tennessee Regulatory Authority (the "Authority") at a regularly scheduled Authority Conference held on November 2, 1999, for the consideration of the report of the Authority's Energy and Water Division (the "Staff") resulting from the Staff's audit of Gasco Distribution Systems' ("Gasco" or the "Company") annual deferred gas cost account filing for the twelve (12) month period ending June 30, 1999. The Actual Cost Adjustment Audit Report (the "Report" or "ACA"), attached hereto as Exhibit A, contains the audit findings of the Staff, the responses thereto of the Company, and the recommendations of the Staff to the Company in addressing the findings. As stated in the Report, the Company agreed with each of the Staff's findings. The Company's initial filing indicated an over-collection of gas costs in the amount of \$2,505. The Staff's audit findings resulted in an additional over-collection of \$5,260. Therefore, the correct ACA balance at Gasco is an over-collection of \$26,428.<sup>1</sup>

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<sup>1</sup> The amount of \$26,428 includes the over-collection balance of \$18,663 forwarded from the June 1998 ACA audit results.


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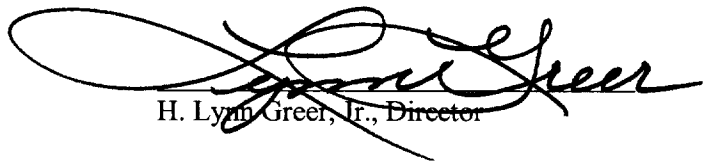
After consideration of the Report, the Authority unanimously approved and adopted the findings and recommendations contained therein.

**IT IS THEREFORE ORDERED THAT:**

1. The ACA Audit Report, a copy of which is attached to this order as Exhibit A, is approved and adopted, including the findings and recommendations contained therein.


2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order.

  
Melvin J. Malone, Chairman

  
H. Lynn Greer, Jr., Director

  
Sara Kyle, Director

ATTEST:

  
K. David Waddell, Executive Secretary

COMPLIANCE AUDIT REPORT

OF

**GASCO DISTRIBUTIONS SYSTEMS, INC.**

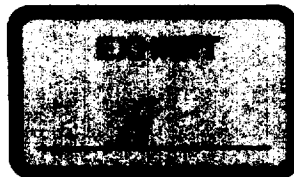
**ACTUAL COST ADJUSTMENT**

PREPARED BY

**TENNESSEE REGULATORY AUTHORITY**

ENERGY AND WATER DIVISION

OCTOBER, 1999



COMPLIANCE AUDIT  
**GASCO DISTRIBUTIONS SYSTEMS, INC.**  
**ACTUAL COST ADJUSTMENT**  
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I. **JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY**

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Public Service Commission. By virtue of Chapter 305 of the Public Acts of 1995, jurisdiction and control over public utilities was transferred from the Tennessee Public Service Commission to the Tennessee Regulatory Authority (the "TRA" or "Authority") on July 01, 1996. T.C.A. §65-4-104 states that:

The Authority shall have general supervision and regulation of, jurisdiction, and control over, all public utilities...

T.C.A. states further in §65-4-111 that the public utilities are to maintain a Uniform System of Accounts:

The Authority shall have the power after hearing, upon notice, by order in writing to require every public utility... to keep its books, records, and accounts so as to afford an intelligent understanding of the conduct of its business, and to that end to require every public utility of the same class to adopt a uniform system of accounting. Such system shall conform, where applicable to any system adopted or approved by the Interstate Commerce Commission of the United States. And to furnish annually, or at other times as the Authority may require, a detailed report of finances and operations as shown by said system of accounts.

The TRA responded to T.C.A. §65-4-111 by establishing its own rule 1220-4-1-1.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides:

The following uniform system of accounting will be followed by utilities and other companies making periodic reports to the Authority:

1. For Classes A and B gas companies - Uniform System of Accounts as adopted by the National Association of Regulatory Utility Commissioners as revised June 30, 1972, and any amendments or revisions pertaining thereto.

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-4-105 which states that the TRA would possess all the other powers conferred on the TRA. T.C.A. §65-3-108 gives the TRA:

full power to examine the books and papers of the said companies, and to examine, under oath, the officers, agents, and employees of said companies...to procure the necessary information to intelligently and justly discharge their duties and carry out the provisions of this chapter and chapter 5 of this title.

## **II. PURPOSE OF COMPLIANCE AUDITS**

The two basic reasons for compliance audits are to assure compliance with the Uniform System of Accounts (USOA) and to assure that the utility is following all rules, regulations and directives adopted by the TRA.

Compliance audits provide the foundation of assurance underlying the basic objective of regulatory accounting, which is to provide a uniform method of recording transactions among similar companies. This uniform record keeping is accomplished through the adoption of the USOA and insures the integrity, reliability, and comparability of the financial data contained in financial reports filed with the TRA, which provides the TRA with one of its most useful regulatory tools for establishing just and reasonable rates.

## **III. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE**

The Tennessee Regulatory Authority issued an Order in Docket No. G-86-1, which adopted a new PGA rule beginning July 1, 1992. The PGA Rider is intended to permit the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect gas costs from its customers. This PGA consists of three major components:

- 1) **The Actual Cost Adjustment (ACA)**
- 2) **The Gas Charge Adjustment (GCA)**
- 3) **The Refund Adjustment (RA)**

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "true-up" the difference between the actual gas costs and the gas costs recovered from the customer through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds.

For a more complete definition of the GCA and RA, please see the PGA Formula in Appendix A.

#### IV. AUDIT TEAM

The TRA's Energy and Water Division is responsible for conducting ACA audits. The audit was conducted by Pat Murphy and Butch Phillips of the Energy and Water Division.

#### V. OBJECTIVE AND SCOPE OF AUDIT

The order for Docket G-86-1 required that the Company

each year...shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of this Rule...

The objective of this audit was to determine that Purchased Gas Adjustments, which are encompassed by the ACA and were described earlier, approved by the TRA during the period from July 1, 1998, to June 30, 1999, had been calculated correctly and were supported by appropriate source documentation. To accomplish this task, the Staff conducted in-house audit work, during which the Company's calculations of gas costs incurred and gas costs recovered were tested

The Staff also audited a sample of customer bills to determine if the proper PGA rates were being applied in the Company's calculation of the customers' bills. These bills were selected to be representative of the residential, commercial and industrial customers in each of the Company's service areas. The sample was selected from all twelve months of the audit period. After recalculating each sample bill, the Staff discovered that the ACA factor was not applied to customer bills from November 1998 through January 1999. This fact is detailed in Staff Finding #2 on page 7 of this report..

The Staff's last ACA audit of Gasco Distribution Systems, Inc. was conducted in 1998 covering the period from July 1, 1997 to June 30, 1998.

**FINDING #2:**

**Exception**

The Company did not apply an ACA refund factor for billing months November 1998 through January 1999.

**Discussion**

The Company did not apply an ACA refund factor in their customer bills for the months of November 1998 through January 1999. This was due to an accounting software conversion that occurred during November 1999. The ACA factor was not programmed into the billing portion and was not detected until the February billing. This computer software error resulted in a overrecovery of \$4,377.21.

**Company Response**

The Company agrees with the audit findings.



**FINDING #3:**

**Exception**

The Company used incorrect interest rates in calculating the interest on the ACA refund.

**Discussion**

The Purchased Gas Adjustment Rule states that the balance in the ACA account "shall be adjusted for interest at the rate provided for the calculation of interest with respect to the Refund Adjustment". The Company used an incorrect interest rate for the months of August 1998 through March 1999 of the audit period. The Staff recalculated the Company's filing using the correct interest rate(s). The amount of additional interest due to the company's customers is \$63.97.

**Company Response**

The Company agrees with the audit findings.

**FINDING #4:**

**Exception**

The Staff calculated an overrecovery of interest in the amount of \$201.41.

**Discussion**

The Staff recalculated the amount of interest due to customers based upon Findings #1 and #2.

**Company Response**

The Company agrees with the audit findings.

June 1. The report for the quarter ended June 30, 1999 was due on August 31 and was received on September 1. The annual report which is due on April 1 of each year was received on time. However, there were errors contained in the report. On July 22, 1999, Staff requested by letter that the errors be corrected. On August 27, a second letter was sent advising the Company that if they did not reply by September 10, "the issue of your delinquency will be placed before the Directors at a regularly scheduled Authority Conference at which time we will request that a docket be opened for the purpose of issuance of show cause order be issued against your company for non-compliance." The Company then responded appropriately.

The second installment of fines levied against the Company was due July 1, 1999. The TRA received payment of \$750 from the Company on June 30, 1999.

The computation of the RA can be computed using the following formulas:

$$\text{Firm RA} = \frac{\text{DR1} - \text{DR2}}{\text{SFR}} + \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

$$\text{Non-Firm RA} = \frac{\text{CR1} - \text{CR2} + \text{CR3} + i}{\text{STR}}$$

where

- RA = The Refund Adjustment in dollars per Ccf/Therm, rounded to no more than five decimal places.
- DR1 = Demand refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- DR2 = A demand surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
- CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from suppliers by check, wire transfer, or credit memo.
- CR2 = A commodity surcharge from a supplier not includable in the GCA, and not included in a currently effective Refund Adjustment.
- CR3 = The residual balance of an expired Refund Adjustment.

- i = Interest on the "Refund Due Customers" account, using the average monthly balances based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the 4th, 3rd, and 2nd months preceding the 1st month of the calendar quarter.
- SFR = Firm sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.
- STR = Total sales as defined in the GCA computation, less sales under a transportation or negotiated rate schedule.

# ATTACHMENT 1

## Gasco Distributions Systems, Inc.

### Calculation of the ACA factor

<u>Line No.</u>	Factor to be applied to residential, commercial and industrial customers:		
1	Cost of Gas Purchased (7/98 - 6/99)	186,322.50	
2	Cost of Gas Recovered	<u>201,051.90</u>	
3	Under/(Over) Recovery	(14,729.40)	
4	Interest on Average Monthly Balances	(1,537.18)	
5	ACA Refunds (7/98 - 6/99)	8,502.21	
6	Beginning Balance (6/30/98)	<u>(18,662.86)</u>	
7	<b>Balance at 6/30/99</b>	<u><b>(26,427.23)</b></u>	<b>Over Recovery</b>
8	Sales Volumes (Actual 12 month ended 6/30/99)	44,678	MCF
9	ACA Factor (line 7 divided by line 8)	<u>(0.5915)</u>	Per MCF **

\*\* At the time of this audit, the Company has refunded approximately 30 months of the 3-year refund ordered in Docket 97-00160 and 97-00293 (paragraph 10).